ARTICLE APPEARED ON PAGE A1

NEW YORK TIMES
29 December 1985

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Foreign Stake in U.S. Stirs Political and Social Doubts

By BARNABY J. FEDER

Money from around the world is pouring into the United States, pushing total foreign investment toward a record $1 trillion.

The funds, whether invested with fanfare in a Japanese-owned auto plant or quietly in billions of dollars of Government bonds, have helped rebuild cities, create jobs, preserve agricultural land, lower home mortgage rates and improve American technology.

Buying Into America
First of three articles on foreign investment in the United States.

A Saudi investor is developing a large office complex in Salt Lake City; the giant West German chemical company, BASF, recently bought the American ink and paint maker, Inmont, for $1 billion; French taxpayers are sustaining the American Motors Corporation through a major investment by the state-owned Régie Nationale des Usines Renault.

Concern Over Wide Effect

But as the investment mounts, so do qualms about its effect. This wave of investment is far more diversified than others in the country's history, with Asian investors, led by fiercely competitive Japan, playing a crucial role.

In addition, the investing is now bound up with international trading trends and economic changes that raise important questions about American economic independence, corporate control and access to new technology. Some people are also worried about political and social effects.

"Foreign investment is a complicated area, but over all it has many more problems for America than most people admit to," said Gov. Richard D. Lamm of Colorado, who has in recent years been among the most prominent critics. "We have to ask ourselves how much we can afford."

Breakdown of Ownership

The total of the funds invested in this country from abroad, which experts say can be only roughly estimated, amounts to but a sliver of the nation's wealth. Foreigners are thought to own about 1 percent of the country's tangible assets, 1 percent of its real estate and perhaps 5 percent of its public and private sector securities.

With such investment up sixfold since 1973, however, and foreign investors playing major roles in certain sectors of the economy and securities markets, skeptics are stepping up their questioning of the Reagan Administration's position, expressed in a 1983 statement, on international investment: "We believe there are only winners, no losers, and all participants gain from it."

Varying Opinions and a Debate

In interviews in recent weeks with politicians, business executives, union officials, economists, academics and citizens of communities with high rates of foreign investment, reporters for The New York Times have found that opinions varied widely on the costs and benefits of foreign investment.

At the heart of the debate are these questions:

¶Are foreign investors playing a healthy role in the American economy — and acquiring a stake in its continuing prosperity — or simply gaining undue influence over it?

¶Do foreign investors contribute more new technology to American commerce than they acquire?

¶Is the United States using foreign investment for economic renewal or simply losing control of strategic business sectors and future earnings?

¶Is the United States helping the world economy by providing a productive home for these investments, or hurting it by swallowing up capital needed abroad?

Some of these arguments are old ones, debated in this country during the 19th century when European investors led by Britain provided much of the financing for the railroads, canals, factories and agricultural developments that made the United States the world's greatest economic power.

The vast majority of foreign investments in the United States today are in bank deposits and securities such as Government bonds, in part because the United States has encouraged foreign investors to loan the money that helps finance its budget deficit. But at least $160 billion is estimated to be invested in businesses, farms, real estate and other property.

Foreign investment in American stocks and bonds is unlikely to come to the attention of the average American, even though foreign willingness to buy Government National Mortgage Association securities, for instance, may help finance the family's home loan, and foreign interest in an internationally known American multinational such as Coca-Cola allows it to sell its bonds abroad more cheaply.

Despite the headlines after Toyota's announcement this month that it will build its first American auto plant in Kentucky, or New York City's celebration in October of the opening of the Canadian-built World Financial Center, foreign acquisitions of businesses and property are often unobtrusive.

An American family, without realizing it, could live in an apartment building owned by foreign insurance companies, buy its groceries from a German-owned chain (A & P) or a French-owned one (Grand Union) and purchase its clothes from a British-owned department store chain (Saks Fifth Avenue, Gimbels or Marshall Field & Company) using cash from its Hong Kong-owned bank (Marine Midland). The husband or wife might work in a skyscraper owned by Britain's Duke of Westminster (the Wells Fargo tower in Los Angeles), and the family might decide to vacation at a Kuwaiti-owned resort (Kiowa Island, S.C.).

The family might then drive to its vacation in a car made by American Motors (46 percent French-owned), getting aggravated by a Mack truck (41 percent French-owned) roaring past and then soothed by hearing "Sentimental Journey" (the ex-Beatle Paul McCartney owns the copyright) on the radio.

A broad range of foreign-investment participants, economists and public officials agree that the money that has flowed into the United States in recent years from Japan, Europe, Canada, the Middle East and Latin America has brought Americans wide-ranging benefits.

Canadians at one point owned almost one-third of Minneapolis's downtown office space and one-half of the 86 new buildings being constructed in Denver in the 1980's, while Europeans, led by the British, continue to be major investors in redeveloping New York and other metropolitan areas. Real estate brokers say foreign investment in farm land, much of which is leased to tenants on a long-term basis, has provided numerous family farms on the brink of bankruptcy with stable capital backing.

Foreign concerns, such as Unilever, a British-Dutch multinational, broaden the range of consumer goods available to Americans through United States subsidiaries, such as Lever Brothers. Foreign machine-tool manufacturers that have set up plants in the United States, meanwhile, make it easier for American customers to modernize and remain competitive. The arrival of Japanese manufacturers has given Americans a closer look at alternative management styles that some domestic companies are now adopting. Economists estimate that, over all, foreign investment has created 2.5 million jobs.

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The investment has produced non-economic benefits too, attracting skilled foreigners who introduce American communities to their various cultures and sometimes stay on to become American citizens. At the same time, it has helped other industrial nations to better understand the United States and has given them a stake in sustaining its economic health.

Getting Foreigners Hooked on the U.S.

"It's been good for us to get other nations hooked on our economy," said C. Fred Bergsten, who oversaw international investment concerns for the Treasury Department in the Carter Administration and now heads the Institute of International Economics, a Washington research organization.

Typically, such thinking on the part of analysts with a broad view is strongly endorsed by leaders in communities with major foreign investments.

"We will welcome foreign investment for as long as it is willing to come here," said Mayor E. Lewis Miller of Spartanburg, S.C., the small city in the hilly Piedmont that for 20 years has courted such investments in order to offset the decline of its traditional textile industries. Now home to 60 foreign companies, it has the highest per capita foreign investment in the United States.

"This country is in a world market no matter how you look at it," Mr. Miller said. "Foreign investment helps."

Skeptics, though, see a dark side to the American appetite for foreign investment. Some officials and economists say foreign companies have used investments to snap up advanced American technology or, conversely, to make American partners reliant on their technology, thus whittling away at the nation's lead in emerging industries, such as electronics.

William J. Casey, Director of Central Intelligence, has termed Japanese investments in American computer companies "Trojan horses."

Critics also say heavy foreign investment in key industrial sectors, such as machine tools and ball bearings, is compromising American security interests — a risk monitored for the Government since 1975 by a standing interagency watchdog committee.

Another complaint is that states and communities looking to foreign investment to create new jobs have plunged into costly bidding wars. Moreover, some critics believe, successful foreign investment in one community can hasten the demise of domestic companies elsewhere. Thus, they argue, it has contributed to the ongoing decline of American economic power from the end of World War II, when the country accounted for about 40 percent of world output, to its current level of less than 25 percent.

Some lawmakers and others who have studied the issue are left with mixed feelings about foreign investment. They say the country does not know enough about what is going on to take rational policy stands.

"A hodgepodge of 16 different Federal agencies collects information on foreign investments here," said Representative John Bryant, Democrat of Texas and the sponsor of legislation to stiffen reporting requirements on foreign investment. "But the information is so limited, hidden in bureaucratic quagmires or actually kept secret by law — even from Congress — that we often don't know who is investing here or whether they are from friendly nations, like Canada, or hostile ones, like Libya and Iran. Nor do we know whether they are legitimate business people or drug traffickers laundering ill-gotten gains."

Borrowed Funds Keep U.S. Going

Critics say that such problems in the monitoring of foreign investments encourage wealthy families from debt-ridden developing countries to move fortunes into American investments. That deprives their nations of sorely needed capital. It may also indirectly undermine American foreign aid programs and the overseas investments of American multinationals.

In the eyes of Wall Street and many economists, the most important problem related to foreign investment is that the willingness of foreign investors to buy Treasury bonds and bills, along with other securities, such as packages of mortgages and municipal bonds, has enabled the United States to live beyond its means.

In recent years Americans, who save a smaller share of their income than most foreigners, have consistently had less money on hand than has been needed to meet the combined demands of the private sector for investment funds and the Government for funds to cover its budget deficits.

The gap has been made up by foreign investors. Their net capital contribution (the difference between foreign investment in the United States and American investment overseas) reached $95 billion last year and may top $130 billion this year — more than $500 for every person in the country. That flow is leaving future generations of Americans with a rapidly expanding obligation to foreigners.

"It cannot continue," said Samuel Nakagama, whose New York-based economic consulting firm, Nakagama & Wallace Inc., has numerous foreign clients. "It's quite clear that we are not going to get out of the 80's without some sort of judgment day that will force us into financial discipline."

Financiers stress that the impact of the deficit and the investment flows it creates is worldwide. European leaders have frequently complained that Europe's economic recovery has been slowed by the outflow of investment capital to the United States. Some groups, such as Britain's Labor Party, are pushing for laws that will penalize institutional investors who do not invest in Britain.

"In a real sense, we have been fortunate that funds have flowed so freely to the United States in recent years, reflecting to a considerable extent widespread confidence in our prospects," Paul A. Volcker, chairman of the Federal Reserve, told a meeting of Canadian executives, many with large United States investments, in late October. "But it is clearly not healthy for the largest and richest country in the world — in its own interest or that of others — to use up so much of the world's savings to finance a budget deficit."

Buying Property And Making Loans

The foreign investment that is worrying observers such as Mr. Volcker and Mr. Nakagama is commonly known as portfolio investment. The vast majority of such investment is controlled by pension funds, insurance companies and other institutions that can move money electronically around the world with a rapidity that can cause nightmares for governments and economic policy makers.

Politicians such as Governor Lamm, by contrast, are often more outspoken about the long-term effects of the other major form of investment — a foreigner buying American property, building a factory or purchasing a major interest in anything from a bank to a Broadway show.

"The main difference between portfolio and direct investment is the risks involved," said Scott Pardee, executive vice president of the Discount Corporation of America, a leading dealer in Government securities.

While British and Arab stable owners have accounted for more than half the purchases of prize American thoroughbred yearlings in recent years, most direct investments are in such fixed assets as buildings and factories that cannot be moved to another nation. A decision to build a factory here may take months, or even years, and is not lightly reversed. "The portfolio investment is much more volatile," Mr. Pardee said.

Portfolio investments and direct investments do have some things in common. For instance, both a Japanese fund manager making a portfolio investment in United States Treasury bonds and a wealthy South American industrialist buying an American home in Florida value the political stability of the United States. Similarly, the British insurance companies investing in blue-chip stocks on the New York Stock Exchange and British multinationals expanding their manufacturing base in the United States are both attracted by the potential gains in an economy that is far larger and more dynamic than that of Britain.

In both forms of investment, the Japanese have also emerged as the driving force.

The average Japanese saves a far higher percentage of income than the average American. This tendency generates more savings than Japan re-

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quires to finance the investment needs of its industry and its Government's budget deficit. The savings surplus makes it easy to borrow money in Japan, depressing the yen and Japanese interest rates. That gives Japanese manufacturers a competitive edge in world markets and Japanese investors a strong incentive to put part of their savings outside the country where they can earn a higher rate of return.

Japan's plunge into American portfolio investments, especially Treasury securities, has come as declining oil revenues have forced Saudi Arabia and other members of the Organization of Petroleum Exporting Countries to cut back on their investments. Last year, the Japanese purchased about one-fourth of all Treasury securities sold to foreigners, about three times the level of investment by the oil producers.

Direct investment by the Japanese is also rising, in both real estate and manufacturing. Last year, for the first time since the Commerce Department's Office of Trade and Investment Analysis began monitoring investment by country, Japan made the largest number of major investments — 198, compared with 171 from Britain and 127 from Canada. Despite that growth, Japan's total direct investment of just under $15 billion at the end of last year is only slightly more than Canada's and is well behind Britain's $38 billion.

Firm Conclusions And Gut Feelings

The prevailing view among business consultants accords with the gut feeling in Spartanburg and other host communities that such investments bring more to the United States than they take away in diverted profits, technology and control. But experts do not deny the problems in reaching firm conclusions. They point out a host of imponderables:

¶Information about investment in the fastest-growing sector of the economy, the service sector, is scarce.

¶A large number of investments involve partial ownership in which statistical information about ownership shares reveals little about the extent of foreign involvement.

¶It is seldom clear whether a foreign company setting up in the United States is taking business from other foreign companies that are exporting here from abroad or from American concerns, or is simply expanding the market.

¶Foreign manufacturing investments usually involve greater reliance on overseas suppliers than homegrown operations, which may weaken suppliers here, but that reliance often is reduced over time as new contacts are made, eventually opening new markets for surviving American suppliers. Whether this pattern benefits the United States in the long run may vary from industry to industry.

"It is easy enough to get all kinds of numbers related to different aspects of foreign investment, but what the specific impact is can be hard to say," said Sven Arndt, an analyst at the American Enterprise Institute, a Washington research group. "You are often tempted to draw conclusions from the initial placement of the investment, but that doesn't tell you much about the long-range impact on the economy."

Next: How foreign investors influence American politics.